



Zee Entertainment

BSE SENSEX 56,931 S&P CNX 16,955

CMP: INR349 TP: INR425(22%) Upgrade to Buy



Stock Info

| | |
|-----------------------|-------------|
| Bloomberg | Z IN |
| Equity Shares (m) | 961 |
| M.Cap.(INRb)/(USDb) | 334.9 / 4.4 |
| 52-Week Range (INR) | 379 / 167 |
| 1, 6, 12 Rel. Per (%) | 19/52/39 |
| 12M Avg Val (INR M) | 5359 |
| Free float (%) | 96.0 |

Financials Snapshot (INR b)

| Y/E Mar | FY21 | FY22E | FY23E | FY24E |
|-------------------|-------|-------|-------|-------|
| Sales | 77.3 | 82.9 | 91.7 | 102.0 |
| EBITDA | 17.9 | 19.4 | 21.5 | 24.2 |
| Adj. PAT | 10.6 | 13.3 | 15.2 | 16.9 |
| EBITDA Margin (%) | 23.2 | 23.4 | 23.4 | 23.7 |
| Adj. EPS (INR) | 11.1 | 13.9 | 15.8 | 17.6 |
| EPS Gr. (%) | 101.7 | 25.5 | 14.1 | 11.4 |
| BV/Sh. (INR) | 105.1 | 115.1 | 127.3 | 141.3 |

Ratios

| | | | | |
|------------|------|------|------|------|
| Net D:E | -0.1 | -0.2 | -0.2 | -0.2 |
| RoE (%) | 10.9 | 12.6 | 13.1 | 13.1 |
| RoCE (%) | 10.1 | 12.3 | 12.9 | 13.0 |
| Payout (%) | 36.0 | 26.6 | 22.7 | 20.4 |

Valuations

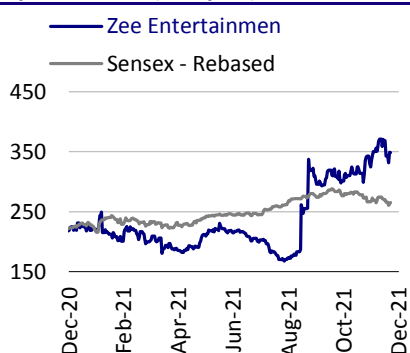
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|-----------------|------|------|------|------|
| P/E (x) | 31.6 | 25.1 | 22.0 | 19.8 |
| P/B (x) | 3.3 | 3.0 | 2.7 | 2.5 |
| EV/EBITDA (x) | 17.9 | 16.2 | 14.4 | 12.5 |
| Div . Yield (%) | 0.7 | 0.9 | 0.9 | 0.9 |
| FCF Yield (%) | 4.3 | 2.6 | 2.3 | 2.4 |

Shareholding pattern (%)

| As On | Sep-21 | Jun-21 | Sep-20 |
|----------|--------|--------|--------|
| Promoter | 4.0 | 4.0 | 4.0 |
| DII | 16.1 | 18.6 | 11.3 |
| FII | 57.2 | 57.5 | 66.2 |
| Others | 22.7 | 19.9 | 18.5 |

FII Includes depository receipts

Stock performance (one-year)



ZEE - Sony merger – Turning into a dominant media player

- ZEE announced completion of the due diligence and final contours of the deal. SONY and ZEE's promoters will hold 51%/4% in the merged entity, while the rest will be held by the public.
- There will be a fresh capital infusion of INR113b (USD1.6b) by Sony, including the INR11b as non-compete fee to ZEE's promoters, which will be utilized to increase its stake to 4% from 2% in the merged entity.
- The merged entity is valued ~17x FY20 EV/EBITDA and 22x P/E. On a SoTP basis, the merged entity's linear business is estimated to be valued at 11-12x EV/EBITDA, with a negative value for the OTT business.
- The combined entity will be a leader in the broadcasting space, with a strong war chest for intensifying its OTT foray and an investment similar to that made by Netflix on its India content.
- The deal addresses past corporate governance and Balance Sheet issues. A strategic partner like Sony will have the ability to leverage large scale opportunities in the Indian Media space.
- We upgrade ZEE to Buy from Neutral with a revised TP of INR425. Roadblocks in the fruition of the deal could be key risks.

Deal contours

- Fund infusion: SPNI, via a rights issue of INR79.5b, and ZEE's promoters, through a new share issue of INR11b, will infuse INR90.5b in the combined entity. This, along with the existing cash on the books of the merged entity, will form the USD1.575b (INR113.4b) growth capital to be infused in the merged entity.
- SPNI to fund ZEE promoters' 2% additional stake for INR11b (INR300/share): Sony, via its subsidiary, will pay a non-compete fee of INR11b to ZEE's promoters, which will be used to infuse primary equity capital into SPNI, thereby increasing their stake by 2.11% to 3.99%.
 - Increase in ZEE promoter's stake to 20% may be market linked: ZEE has agreed to limit its stake to 20% in the combined entity. The press release clarified that the deal does not provide the promoters any pre-emptive or other rights to acquire equity of the combined entity from Sony, the combined company, or any other party. This was a key bugbear for Invesco.
- SPNI/ZEE to hold 50.9%/3.99% stake: Sony through its subsidiaries will indirectly hold majority stake (50.86%) in the combined entity. ZEE's promoters will hold 3.99% and public shareholding will stand at 45.15%.
 - This will be on the basis of: a) A 10:1 stock split, along with a bonus issue to SPNI's shareholders. b) Overall equity infusion of INR90.5b by both companies. c) Share swap of 85:100 for ZEE's shareholders and 133:10 for BEPL's shareholders.

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Motilal Oswal research is available on www.motilalosal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- At ZEE's current market capitalization, this implies a post-money enterprise value of INR523.6b for the merged entity.
- The leadership of the combined entity will be driven by ZEE's current MD and CEO Mr. Punit Goenka. The majority of the board of directors of the combined company will be nominated by Sony and will include SPNI's current Managing Director and CEO, Mr. N.P. Singh. On closure of the deal, Mr. Singh will assume the role of Chairman, Sony Pictures India (a division of SPE).

Deal process

- Regulatory and shareholder/creditor approvals will now be sought and may take 3-4 quarters to fructify.
- Shareholders and creditor approval: ZEE needs to secure the consent of three-fourth of its shareholders for the deal to be passed. (<https://www.mca.gov.in/MinistryV2/mergers+and+acquisitions.html>).
- Invesco holds a 20% stake, so securing their approval will be crucial.
- MIB and CCI approval: A couple of mergers in the Radio industry took over two years to fructify. So, this deal could take some time. CCI's approval should take lesser time.

What's in it for each company's stakeholders?

ZEE

- While ZEE had a healthy Balance Sheet and market position, the merged entity will have a better market standing (revenue and cost synergies), given its scale and ability to intensify its OTT foray. The combined entity will have revenue of INR140-150b and EBITDA generating capability of 35% in the linear business, i.e. ~INR50b.
- It will have a wider portfolio across genres, including general entertainment, movies, and sports. SPNI, a unit of Japan's Sony Corporation, operates 26 channels, including sports, while ZEE has 49 channels. The company over time could use its leverage to boost its competitive position and synergies.
- As per our estimate, both ZEE and Sony's current combined OTT spend would be a sizeable ~INR30b annually. This could be far better utilized as a merged entity to ensure a steady flow of movie content and other genres.
- The new entity will have an independent board elected by Sony. Given ZEE's history of various related party transactions and non-core investments, this deal may address most concerns.

Sony

- Sony gets two things. a.) A business at a reasonable price. ZEE is currently valued below 20x, a far cry from its peak valuation. b) Better management leadership to drive the broadcasting business, considering ZEE's industry leading performance over the years.
- Promoter: This allows the promoter to improve their shareholding and address corporate governance concerns. It also provides a strong partner to invest in new opportunities in the changing Media landscape.

OTT opportunity and merged entity's capabilities

- The OTT opportunity is evident from the 29m unique OTT subscribers paying for 53m OTT video subscriptions as of CY20. The same is doubling annually. Around 1,200 hours of original content is created annually for OTT platforms at a cost of INR10.2b across 220 titles, excluding acquired movie rights. The overall video

subscription market was valued ~INR43b in CY20. This is now nearly 15% of the TV broadcasting market and is expected to double in two years.

- The merged entity's ability to spend INR30b annually is similar to Netflix's INR30b India content investment over the last two years. As per our estimates, the combine MAU of ZEE5 and SonyLIV is about 140m compared to ~192m for Hotstar's entertainment content. Thus, the merged entity could certainly have a strong wherewithal to compete in the market.

Valuation and view

- The merged entity will get a strong board, along with senior management (current MD: Mr. Goenka) that has a very strong operational background. There is a possible upside from the merged entity's higher competitive position in the market and synergy gains, given that both the companies have a significant potential to improve profitability. The stock is still trading below 20x, including SPNI. Improving corporate governance and operational performance could significantly aid in the long run. But the deal may take 3-4 quarters to fructify, given the long haul of structural changes to the business, board, and leadership, which may take time to drive incremental earnings.
- At ZEE's current m-cap, this implies a post-money enterprise value of INR524b for the merged entity, implying an EV/EBITDA of 17x on a FY20 basis and a P/E of 22x. Considering the stable state 35% EBITDA margin for the linear broadcasting business, the OTT business garners negative value. This could be in for a big change given the merged entity's strong war chest and ability to invest in content to drive growth. We upgrade our rating to Buy with a revised TP of INR425/share (at 25x Sep'23E EPS).

Exhibit 1: Valuation based on P/E

| Valuation | Sept'21 |
|--------------------|---------|
| EPS | 17 |
| PE multiple (x) | 25 |
| Target Price (INR) | 425 |
| CMP (INR) | 349 |
| Upside (%) | 22% |

Source: MOFSL, Company

Exhibit 2: Fund infusion in the merged entity

| | No of shares (mn) | Amount raised (INR m) | Price (INR) | Dilution |
|----------------------------|-------------------|-----------------------|-------------|----------|
| Right issue of SPNI shares | 265 | 79,487 | 300 | |
| Essel Holdings Limited | 37 | 11,013 | 300 | 2.11% |
| Total | 302 | 90,500 | | |

Source: MOFSL, Company

Exhibit 3: Shares issued to ZEE and BEPL in the swap ratio

| Share swap | |
|------------------------------------|--------------|
| Total shares held by Zee | 960.5 |
| Exchange Ratio | 85:100 |
| Total shares issued to zee | 816.4 |
| Total shares held by BEPL | 1.8 |
| Exchange Ratio | 133:10 |
| Total shares issued to BEPL | 24.0 |

Source: MOFSL, Company

Key takeaways from the management interaction

- Growth capital: Sony to infuse growth capital of USD1.5b in the merged entity to meet future growth requirements. This is excluding ZEE's cash balance, which will also be included.
- Merger timeline: It expects completion of the merger process to be within 8-10 months. While no roadblocks from CCI are expected, shareholder approval (75%) would be a key.
- Synergies from the merger: The management expects overall synergies of 6-8%, driven by revenue in the first year of its merger.
- Cash utilization: It will invest in movie acquisition, original content, explore acquisitions, and eye rights to sporting events to build strong growth.
- Key red flags: a) Sony's music, movie production, and distribution business will be outside the merged entity. b) There is a difference in the accounting of amortization of movie content, which will be harmonized post-merger. c) Contingent liability of ZEE will be subsumed by the new entity.

Detailed notes:

Merger process:

- Having signed the definitive agreement post mutual due diligence, approval would be sought from CCI, filing with the stock exchanges, and approval from NCLT, shareholders, and MIB.
- The management expects the merger process to be completed in 8-10 months.
- It expects the relisting process post-merger to be within three weeks. The transaction will be tax neutral for investors.
- The Essel group will continue to remain a promoter in the merged entity.

Infusion of growth capital and cash utilization:

- As per the terms of the agreement, Sony will infuse USD1.5b (USD1.575b as per the term sheet) in the form of growth capital to maintain its holding and meet the capital requirements of the merged entity to drive scale, enhance content creation, and enables the merged company to bid for media rights.
- The fund infusion will mainly be through: a) a rights issue, b) payment to the promoters of ZEE in the form of non-compete compensation, and c) any other form of cash infusion until the completion of the merger.
- The excess cash balance will be utilized for future M&A opportunities in the digital space, bidding for premium content (sports), investments in the digital business, and payment of dividend.
- Synergies of the merged entity: The management expects overall synergies of 6-8%, driven by revenue. While revenue synergies will be generated in the first year of the merger, cost synergies may take a longer period to fructify.

OTT segment:

- OTT platforms of both entities will continue to run on a 'as is basis' until the completion of the merger.
- The company will continue bidding for sports rights and will remain aggressive in acquisition of sporting events, with shareholder value being under consideration.

- A decision on the merger of the OTT segments will be taken by the boards of the merged companies.
- There is a significant difference in the accounting of amortization of the movie content within the two companies, which will be harmonized going forward.
- Contingent liability of the company will be subsumed by the new entity.
- Investment in sporting rights will be undertaken to acquire subscribers in the short term and monetization in the long term.
- Valuation of the merged entity has been undertaken on a relative basis of the business and its outlook.
- While the music and movie production and distribution business of Sony will be outside the boundaries of the merger, ZEE's movie production and distribution will take place under the merged entity.

Exhibit 4: Shareholding of the merged entity (no. of shares in m)

| Promoters | Before Scheme | | Post Scheme | |
|-----------|---------------|------------|--------------|------------|
| | No of Shares | % of Total | No of Shares | % of Total |
| Sony | 11.9 | 100% | 883 | 50.86% |
| Essel | 0.0 | | 69 | 3.99% |
| Public | 0.0 | | 784 | 45.15% |
| Total | 11.9 | 100 | 1,736 | 100% |

Source: MOFSL, Company

Exhibit 5: EV of the merged entity

| INR b | |
|-------------------------------|--------|
| M.Cap of Zee | 324.0 |
| Sony Stake | 50.86% |
| Total Mkt Cap (Merged Entity) | 637.0 |
| Growth Capital (USD) | 1.6 |
| Growth Capital (INR) | 113.4 |
| Enterprise Value | 523.60 |

Source: MOFSL, Company

Exhibit 6: Valuation of the merged entity

| Valuation of the merged entity | FY20 |
|--------------------------------|------|
| EV | 524 |
| EV/Sales | 3.7 |
| EV/EBITDA | 17.1 |
| P/E | 22.3 |

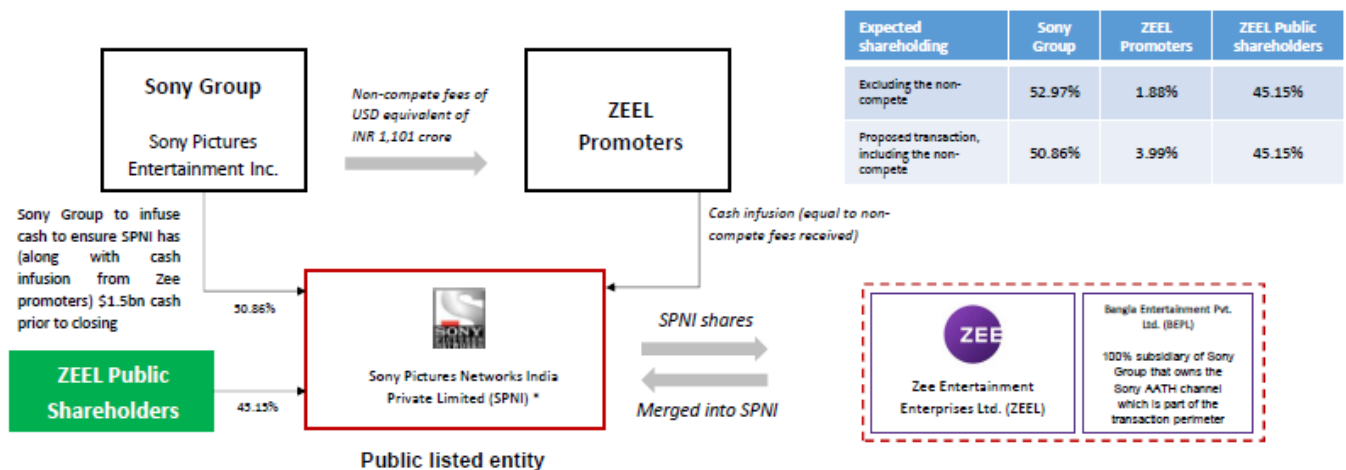
Source: MOFSL, Company

Exhibit 7: FY20 financial snapshot

| Particulars INRb | Sony | Zee | Merged |
|------------------|------|------|--------|
| Net Sales | 59.1 | 81.3 | 140.4 |
| EBITDA | 14.2 | 16.3 | 30.6 |
| PAT | 9.0 | 9.4 | 18.4 |
| Net Debt | -7.8 | -4.1 | -11.9 |

Source: MOFSL, Company

Exhibit 8: Draft scheme of arrangement



Source: Company

Exhibit 9: ZEE5 KPIs

| ZEE5 KPIs | 1QFY21 | 2QFY21 | 3QFY21 | 4QFY21 | 1QFY22 | 2QFY22 |
|-----------------------------|--------|--------|--------|--------|--------|--------|
| DAUs (m) | 4 | 5.2 | 5.4 | 6.1 | 7.1 | 9.3 |
| MAUs (m) | 39.7 | 54.7 | 65.9 | 72.6 | 80.2 | 93.2 |
| Avg watch time (mnts/month) | 112 | 152 | 133 | 156 | 190 | 186 |
| Revenue (INRm) | 949 | 989 | 1178 | 1075 | 1117 | 1305 |
| as % of total revenue | 7% | 6% | 4% | 5% | 6% | 7% |

Source: Company, MOFSL

Exhibit 10: SonyLIV KPI (estimated as per channel checks)

| | |
|-----------------------------|----------|
| Revenue (INRm) | 9,000 |
| Ad revenue (INRm) | 6,000 |
| Subscription revenue (INRm) | 3,000 |
| Subscribers (m) | 6.8 |
| Revenue/sub | 441 |
| DAU (m) | 10 |
| MAU (m) | 45 |
| Operating Cost (INRm) | 21,000 |
| EBITDA (INRm) | (12,000) |

Source: MOFSL

Exhibit 11: Break-up of content inventory, advances, and deposits

| | FY19 | FY20 | FY21 | 1QFY22 | 2QFY22 |
|----------------------------------|-----------|------------|--------------|-------------|-------------|
| Movie Rights | 55 | 62 | 64 | 63 | 61 |
| Shows | 9 | 14 | 13 | 13 | 13 |
| Movie production, Music & Others | 2 | 7 | 9 | 9 | 11 |
| Content Advances & Deposits | 34 | 17 | 14 | 15 | 15 |
| Amount (INRb) | 58 | 64 | 62.7 | 64.6 | 66.2 |
| Movie Rights | 32 | 40 | 40 | 41 | 40 |
| Shows | 5 | 9 | 8 | 8 | 9 |
| Movie production, Music & Others | 1 | 4 | 6 | 6 | 7 |
| Content Advances & Deposits | 20 | 11 | 9 | 10 | 10 |
| Change (INRb) | | 6.0 | (1.3) | | 1.6 |
| Movie Rights | | 7.8 | 0.4 | | (0.3) |
| Shows | | 3.7 | (0.8) | | 0.2 |
| Movie production, Music & Others | | 3.3 | 1.2 | | 1.5 |
| Content Advances & Deposits | | (8.8) | (2.1) | | 0.2 |

Source: Company presentation

Financials and Valuations

| Consolidated - Income Statement | | | | | | | | | (INR m) |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| Y/E March | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
| Total Income from Operations | 58,125 | 64,341 | 66,857 | 79,339 | 81,299 | 77,299 | 82,884 | 91,749 | 1,01,956 |
| Change (%) | 19.0 | 10.7 | 3.9 | 18.7 | 2.5 | -4.9 | 7.2 | 10.7 | 11.1 |
| Programming/Production expenses | 25,984 | 27,757 | 25,275 | 30,758 | 38,285 | 37,505 | 38,058 | 42,950 | 48,425 |
| Employees Cost | 4,986 | 6,043 | 6,657 | 7,249 | 7,805 | 8,183 | 9,165 | 9,898 | 10,690 |
| Other Expenses | 12,019 | 11,273 | 14,164 | 15,692 | 18,863 | 13,710 | 16,273 | 17,412 | 18,631 |
| Total Expenditure | 42,989 | 45,073 | 46,095 | 53,700 | 64,953 | 59,398 | 63,496 | 70,261 | 77,747 |
| % of Sales | 74.0 | 70.1 | 68.9 | 67.7 | 79.9 | 76.8 | 76.6 | 76.6 | 76.3 |
| EBITDA | 15,136 | 19,269 | 20,761 | 25,639 | 16,345 | 17,901 | 19,388 | 21,488 | 24,210 |
| Margin (%) | 26.0 | 29.9 | 31.1 | 32.3 | 20.1 | 23.2 | 23.4 | 23.4 | 23.7 |
| Depreciation | 777 | 1,152 | 1,821 | 2,347 | 2,706 | 2,649 | 2,590 | 3,126 | 3,426 |
| EBIT | 14,359 | 18,116 | 18,941 | 23,292 | 13,639 | 15,252 | 16,798 | 18,362 | 20,784 |
| Int. and Finance Charges | 1,598 | 1,372 | 1,448 | 1,304 | 1,449 | 571 | 296 | 150 | 20 |
| Other Income | 1,951 | 2,241 | 4,404 | 2,515 | 2,836 | 1,104 | 1,322 | 1,924 | 1,680 |
| Fair Value through P&L gain/(loss) | -673 | -2,205 | -68 | 36 | -2,597 | -1,962 | -186 | 0 | 0 |
| PBT bef. EO Exp. | 14,039 | 16,780 | 21,829 | 24,538 | 12,430 | 13,823 | 17,638 | 20,135 | 22,444 |
| EO Items | -331 | 12,234 | 1,346 | -218 | -2,843 | -1,266 | -177 | 0 | 0 |
| PBT after EO Exp. | 13,708 | 29,014 | 23,175 | 24,320 | 9,587 | 12,558 | 17,461 | 20,135 | 22,444 |
| Total Tax | 5,491 | 6,809 | 8,409 | 8,673 | 4,317 | 4,625 | 4,584 | 5,068 | 5,649 |
| Tax Rate (%) | 40.1 | 23.5 | 36.3 | 35.7 | 45.0 | 36.8 | 26.3 | 25.2 | 25.2 |
| Minority Interest/Associate | -14 | -8 | -25 | -23 | 5 | -69 | -139 | -139 | -139 |
| Reported PAT | 8,231 | 22,213 | 14,791 | 15,671 | 5,265 | 8,002 | 13,016 | 15,206 | 16,934 |
| Adjusted PAT | 9,102 | 15,054 | 14,001 | 15,775 | 9,424 | 10,620 | 13,333 | 15,206 | 16,934 |
| Change (%) | -6.9 | 65.4 | -7.0 | 12.7 | -40.3 | 12.7 | 25.5 | 14.1 | 11.4 |
| Margin (%) | 15.7 | 23.4 | 20.9 | 19.9 | 11.6 | 13.7 | 16.1 | 16.6 | 16.6 |

| Consolidated - Balance Sheet | | | | | | | | | (INR m) |
|-------------------------------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E March | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
| Equity Share Capital | 960 | 960 | 961 | 961 | 961 | 961 | 961 | 961 | 961 |
| Total Reserves | 47,079 | 65,945 | 74,657 | 88,279 | 92,479 | 99,985 | 1,09,543 | 1,21,292 | 1,34,769 |
| Net Worth | 48,039 | 66,905 | 75,617 | 89,239 | 93,439 | 1,00,945 | 1,10,504 | 1,22,252 | 1,35,729 |
| Minority Interest | 22 | 10 | 142 | 143 | 110 | 129 | -11 | -152 | -292 |
| Total Loans | 17,159 | 22,023 | 15,255 | 11,134 | 6,476 | 4,028 | 2,011 | 195 | -188 |
| Deferred Tax Liabilities | -648 | -903 | 1,996 | 1,262 | 0 | -1,207 | -1,207 | -1,207 | -1,207 |
| Capital Employed | 64,573 | 88,035 | 93,010 | 1,01,778 | 1,00,025 | 1,03,894 | 1,11,296 | 1,21,089 | 1,34,042 |
| Gross Block | 9,221 | 10,944 | 15,353 | 17,299 | 19,799 | 22,299 | 24,799 | 27,299 | 29,799 |
| Less: Accum. Deprn. | 3,792 | 4,464 | 6,058 | 8,406 | 10,722 | 13,762 | 16,352 | 19,478 | 22,904 |
| Net Fixed Assets | 5,429 | 6,480 | 9,295 | 8,893 | 9,077 | 8,538 | 8,447 | 7,821 | 6,895 |
| Goodwill on Consolidation | 8,843 | 2,676 | 5,467 | 5,252 | 4,070 | 3,804 | 3,804 | 3,804 | 3,804 |
| Capital WIP | 1,104 | 1,558 | 920 | 1,561 | 832 | 782 | 782 | 782 | 782 |
| Total Investments | 10,501 | 13,432 | 15,288 | 9,765 | 3,247 | 7,983 | 7,983 | 7,983 | 7,983 |
| Curr. Assets, Loans&Adv. | 53,135 | 77,525 | 80,327 | 1,03,859 | 1,06,511 | 1,05,874 | 1,18,789 | 1,32,373 | 1,49,765 |
| Inventory | 13,180 | 16,962 | 26,278 | 38,505 | 53,475 | 54,030 | 59,954 | 67,661 | 76,286 |
| Account Receivables | 13,482 | 12,418 | 15,365 | 18,274 | 20,847 | 21,286 | 22,708 | 23,880 | 25,140 |
| Cash and Bank Balance | 9,631 | 26,133 | 16,117 | 12,218 | 7,345 | 10,907 | 14,575 | 18,209 | 23,199 |
| Loans and Advances | 16,842 | 22,012 | 22,567 | 34,861 | 24,845 | 19,651 | 21,553 | 22,623 | 25,140 |
| Curr. Liability & Prov. | 14,439 | 13,636 | 18,287 | 27,552 | 23,712 | 23,085 | 28,509 | 31,674 | 35,187 |
| Account Payables | 4,768 | 8,343 | 11,497 | 14,897 | 16,803 | 13,982 | 14,885 | 16,538 | 18,372 |
| Other Current Liabilities | 9,060 | 4,436 | 5,816 | 11,204 | 5,383 | 7,395 | 11,908 | 13,230 | 14,697 |
| Provisions | 611 | 858 | 975 | 1,451 | 1,526 | 1,709 | 1,716 | 1,906 | 2,118 |
| Net Current Assets | 38,696 | 63,889 | 62,040 | 76,307 | 82,799 | 82,788 | 90,280 | 1,00,699 | 1,14,578 |
| Appl. of Funds | 64,573 | 88,035 | 93,010 | 1,01,778 | 1,00,025 | 1,03,894 | 1,11,296 | 1,21,089 | 1,34,042 |

E: MOFSL Estimates

Financials and Valuations

Ratios

| Y/E March | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
|-------------------------------|------------|-------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|
| Basic (INR) | | | | | | | | | |
| EPS | 9.5 | 15.7 | 14.6 | 16.4 | 5.5 | 11.1 | 13.9 | 15.8 | 17.6 |
| Cash EPS | 8.8 | 15.6 | 15.2 | 17.8 | 11.8 | 13.4 | 16.3 | 19.0 | 21.2 |
| BV/Share | 50.0 | 69.7 | 78.7 | 92.9 | 97.3 | 105.1 | 115.1 | 127.3 | 141.3 |
| DPS | 2.3 | 2.5 | 2.9 | 3.5 | 3.0 | 2.5 | 3.0 | 3.0 | 3.0 |
| Payout (%) | 31.7 | 13.0 | 22.6 | 25.7 | 65.7 | 36.0 | 26.6 | 22.7 | 20.4 |
| Valuation (x) | | | | | | | | | |
| P/E | 36.8 | 22.3 | 23.9 | 21.3 | 63.7 | 31.6 | 25.1 | 22.0 | 19.8 |
| Cash P/E | 39.8 | 22.4 | 23.0 | 19.6 | 29.6 | 26.1 | 21.4 | 18.4 | 16.5 |
| P/BV | 7.0 | 5.0 | 4.4 | 3.8 | 3.6 | 3.3 | 3.0 | 2.7 | 2.5 |
| EV/Sales | 5.7 | 4.9 | 4.8 | 4.1 | 4.1 | 4.1 | 3.8 | 3.4 | 3.0 |
| EV/EBITDA | 21.9 | 16.5 | 15.4 | 12.6 | 20.3 | 17.9 | 16.2 | 14.4 | 12.5 |
| Dividend Yield (%) | 0.6 | 0.7 | 0.8 | 1.0 | 0.9 | 0.7 | 0.9 | 0.9 | 0.9 |
| Return Ratios (%) | | | | | | | | | |
| RoE | 21.8 | 26.2 | 19.6 | 19.1 | 10.3 | 10.9 | 12.6 | 13.1 | 13.1 |
| RoCE | 16.2 | 20.2 | 16.5 | 17.4 | 9.0 | 10.1 | 12.3 | 12.9 | 13.0 |
| RoIC | 21.4 | 30.7 | 22.4 | 21.6 | 9.0 | 11.1 | 14.4 | 15.1 | 15.9 |
| Working Capital Ratios | | | | | | | | | |
| Asset Turnover (x) | 0.9 | 0.7 | 0.7 | 0.8 | 0.8 | 0.7 | 0.7 | 0.8 | 0.8 |
| Inventory (Days) | 83 | 96 | 143 | 177 | 240 | 255 | 264 | 269 | 273 |
| Debtor (Days) | 85 | 70 | 84 | 84 | 94 | 101 | 100 | 95 | 90 |
| Creditor (Days) | 30 | 47 | 63 | 69 | 75 | 66 | 66 | 66 | 66 |
| Leverage Ratio (x) | | | | | | | | | |
| Net Debt/Equity | -0.1 | -0.3 | -0.2 | -0.1 | 0.0 | -0.1 | -0.2 | -0.2 | -0.2 |

Consolidated - Cash Flow Statement

| Y/E March | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22E | FY23E | FY24E |
|----------------------------------|---------------|---------------|----------------|---------------|----------------|---------------|---------------|---------------|---------------|
| (INR m) | | | | | | | | | |
| OP/(Loss) before Tax | 14,040 | 29,009 | 23,187 | 24,345 | 9,563 | 12,556 | 17,461 | 20,135 | 22,444 |
| Depreciation | 777 | 1,152 | 1,821 | 2,565 | 5,550 | 2,649 | 2,590 | 3,126 | 3,426 |
| Interest & Finance Charges | 28 | 73 | 101 | 139 | 135 | 104 | 296 | 150 | 20 |
| Direct Taxes Paid | -5,827 | -6,810 | -8,295 | -9,299 | -3,114 | -5,011 | -4,584 | -5,068 | -5,649 |
| (Inc)/Dec in WC | -2,497 | -6,036 | -8,551 | -17,151 | -16,758 | 809 | -3,823 | -6,785 | -8,889 |
| CF from Operations | 6,521 | 17,388 | 8,263 | 599 | -4,624 | 11,107 | 11,940 | 11,559 | 11,351 |
| Others | 781 | -10,698 | -2,673 | 734 | 7,124 | 4,370 | -1,323 | -1,925 | -1,681 |
| CF from Operating incl EO | 7,302 | 6,690 | 5,590 | 1,333 | 2,499 | 15,477 | 10,616 | 9,634 | 9,670 |
| (Inc)/Dec in FA | -2,716 | -2,704 | -3,146 | -2,814 | -1,451 | -1,740 | -2,500 | -2,500 | -2,500 |
| Free Cash Flow | 4,586 | 3,986 | 2,444 | -1,481 | 1,048 | 13,737 | 8,116 | 7,134 | 7,170 |
| (Pur)/Sale of Investments | -611 | -2,975 | -1,413 | 5,930 | 3,163 | -3,765 | 0 | 0 | 0 |
| Others | 4,531 | 19,629 | -145 | 1,316 | 1,451 | -951 | 1,322 | 1,924 | 1,680 |
| CF from Investments | 1,204 | 13,950 | -4,704 | 4,432 | 3,163 | -6,456 | -1,178 | -576 | -820 |
| Issue of Equity | 59 | 0 | 0 | 0 | -4,867 | -4,027 | -2,017 | -1,815 | -383 |
| Inc/(Dec) in Debt | -4 | 0 | -6,967 | -4,876 | -12 | 4 | 0 | 0 | 0 |
| Interest Paid | -28 | -73 | -101 | -54 | -67 | -43 | -296 | -150 | -20 |
| Dividend Paid | -4,051 | -4,065 | -3,834 | -4,734 | -5,227 | -1,118 | -3,458 | -3,458 | -3,458 |
| Others | -22 | 0 | 0 | 0 | -362 | -275 | 0 | 0 | 0 |
| CF from Fin. Activity | -4,046 | -4,138 | -10,902 | -9,664 | -10,535 | -5,459 | -5,770 | -5,423 | -3,861 |
| Inc/Dec of Cash | 4,460 | 16,502 | -10,016 | -3,899 | -4,873 | 3,561 | 3,668 | 3,634 | 4,990 |
| Opening Balance | 5,171 | 9,631 | 26,133 | 16,117 | 12,218 | 7,345 | 10,907 | 14,575 | 18,209 |
| Closing Balance | 9,631 | 26,133 | 16,117 | 12,218 | 7,345 | 10,907 | 14,575 | 18,209 | 23,199 |

NOTES

| Explanation of Investment Rating | |
|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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